

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Japan Targets Europe

While Japan's huge trade surplus with the United States still provokes strong protests from Washington, recent figures indicate that there has been a dramatic shift in the country's trade flows this year. After declining by some 45 percent between 1987 and 1990, Japan's global trade surplus is on the rise again. Reflecting a 27 percent surge in exports—or three times the rate of import growth—Japan's trade surplus jumped by a hefty 34 percent to \$21.1 billion during the first four months of this year from \$15.8 billion a year ago. Only this time it is European producers that are bearing the brunt.

To be sure, the United States still accounts for the largest share of Japan's total surplus. However, the U.S. portion dropped to 54 percent during the first four months of this year from 72 percent a year ago. What's more, while Japan's trade surplus with the United States declined slightly, its surplus with the European Community (EC) surged by a whopping 63 percent. In fact, Japan's April trade surplus with the EC was larger than that with the United States for the first time in more than eight years.

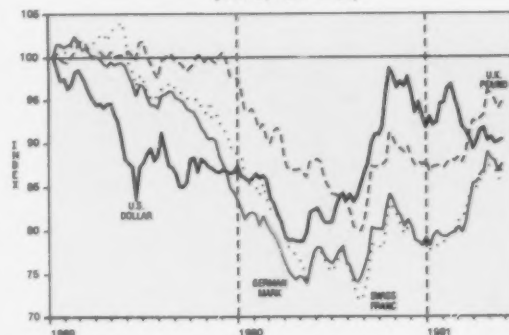
The EC will continue to be the focus of Japan's changing trade policies. For one thing, responding to criticism from Washington, Japanese exporters are redirecting their energies toward Europe. For another, the turmoil in Tokyo's financial markets has dampened consumer demand for such luxury items as German cars, French wines and paintings and Italian clothing and jewelry, which were a major force behind the growth in Japanese imports during the late 1980s. As a result, although Japan's surplus with the United States will probably shrink this year from last year's \$38 billion figure, the surplus with the European community could surge to \$30 billion in 1991 from \$21 billion in 1990.

The Yen's Mixed Performance

This shift in trade flows is probably the major reason for the yen's diverging trends this year, but there are others. Undermined by hefty capital outflows, frequent conflicts between the Bank of Japan and the Ministry of Finance concerning interest rate policy, and Japan's financial market volatility, the Japanese yen has

weakened against most of the major currencies over the past few years. It had declined by around 6½ percent against the U.S. dollar, 22 percent against the German mark, 12 percent

JAPANESE YEN VS. SELECTED CURRENCIES
WEEKLY AVERAGES
(JAN. 6, 1989 = 100)



Source: MH

versus the British pound and 19 percent against the Swiss franc during the two years ended December 1990. However, while the yen has depreciated by another three percent against the dollar so far this year, it has managed to stage a sharp recovery against the European currencies, appreciating by almost 12 percent against the mark, nearly eight percent versus the pound and around nine percent against the Swiss franc since early January (see chart).

Another reason for the yen's relatively stronger performance this year is the extremely bearish market sentiment toward the mark that existed earlier this year. The weakened German currency has also dragged down many of the other European currencies against the yen via the exchange rate mechanism of the European Monetary System (Financial Digest—April 22, 1991). Also, there has been a dramatic change in Japanese capital flows since early last year. Data for fiscal year 1990/91 (ended March 31) reveal that Japanese investors' net purchases of foreign stocks totaled only \$847 million, down from \$22.9 billion in the previous year. Net bond purchases were \$41.4 billion, barely half the \$80.9 billion figure recorded in fiscal year 1989/90.

These Trends Should Continue

While the dollar's ascent has stalled in recent

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weeks due to the lack of clear evidence of a U.S. economic recovery, a combination of economic growth, interest rate, foreign trade and political developments will probably continue to weaken the yen against the U.S. unit and strengthen it against most European currencies in the months ahead. One exception, however, could be the mark since the Bundesbank's expected new President, Helmut Schlesinger, is a hard-line monetary conservative who will likely keep German interest rates high. For one thing, the U.S. economy is expected to recover later this year, while economic growth in Japan will continue to slow. Japanese economic growth decelerated sharply to a 2.1 percent annual rate

in the September-December quarter, down from 4.6 percent in the previous three months. Reflecting a slowdown in business investment and consumer spending, the economy is expected to slow even further in the coming months, resulting in a real economic growth rate of 3.0 to 3.5 percent this year versus 5.6 percent in 1990.

At the same time, although the inflation rate reached a ten-year high of 4½ percent in January (year-over-year), it slowed to four percent in March and should ease further to the 3.0 to 3.5 percent neighborhood by yearend, due to the Bank of Japan's tight monetary policy,

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits \$100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (5/15/91)	196,000	- 542	- 19,157
New York City (5/22/91)	32,143	- 430	- 7,479
Commercial Paper (5/22/91)	548,866	+ 445	- 554

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (5/15/91)	315,047	- 1,265	- 10,654
New York City (5/22/91)	56,294	- 30	- 2,311

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Year Ago
Nationwide (5/15/91)	1,046,516	+ 1,801	+ 34,006
New York City (5/22/91)	173,287	- 2,781	- 8,085

Financial Markets

	Friday 5/31/91	Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bill†	5.64%	+ .11	- 2.29
180-Day Bill†	5.11	+ .05	- 2.08
Longest Bill†	6.14	+ .07	- 1.91
Recent Issues:			
6½s 5/31/93	6.66	NA	
7½s 5/31/96	7.68	NA	
8s 5/15/01	8.04	- .05	
8½s 5/15/21	8.24	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (5/30/91)	6.97%	- .01	- .29
Blue List Total (\$ Million)	\$1,498	+ \$ 15	+\$ 158
30-Day Visible Supply (\$ Million)	\$3,119	- \$349	+\$1,303
Total	\$4,617	- \$334	+\$1,461
Corporates:			
Moody's Aa Composite (5/30/91)	9.15%	- .03	- .45
30-Day Visible Supply (\$ Million)	\$ 150	- \$250	- \$ 730
Stocks:			
Dow-Jones Averages:			
Industrials	3,027.50	+ 113.59	+126.53
Transportation	1,229.02	+ 73.70	+ 38.87
Utilities	211.77	+ 1.63	+ .06
65 Stocks	1,085.67	+ 43.20	+ 36.02
N.Y.S.E. Composite Index	212.99	+ 6.33	+ 14.96
N.Y.S.E. Avg. Daily Vol. for Week (000's)	204,615	+ 53,964	+31,463

*34% Taxable equivalent 10.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/31/91	Week Ago
Overnight	5.81%	5.69%
1 month	5.81	5.81
3 month	5.94	5.94
6 month	6.06	6.06
1 year	6.44	6.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/31/91)	Currency Per U.S. \$	Week Ago
Belgium	35.51	35.19
Canada	1.1450	1.1494
France	5.8445	5.8200
Germany	1.7270	1.7105
Italy	1280.50	1271.00
Japan	138.10	138.40
Mexico	3009.80	3008.20
Netherlands	1.9445	1.9265
South Korea	709.40	712.25
Switzerland	1.4710	1.4515
Taiwan	26.90	27.00
U.K.*	1.7105	1.7280

*U.S. \$ per U.K. pound

MH TRADE- WEIGHTED DOLLAR (5/31/91)	Change Since Week Ago	2/27/85
(Adjusted for Inflation)	+0.1%	-7.7%

moderate wage settlements and sharply slowing money supply growth.

Slowing economic growth and subsiding inflationary pressures, in turn, will probably prompt the Bank of Japan to cut the discount rate, currently at six percent, although the central bank will likely wait until it examines first quarter GNP data, scheduled to be released later this month, before loosening its tight monetary grip. Stable interest rates in the United States and lower rates in Japan and many of the European countries should narrow Japanese-US interest rate differentials while leaving the gap between Japanese and most European rates virtually

unchanged.

Political uncertainty could also place downward pressure on the yen versus the dollar later this year because Prime Minister Kaifu's term as President of the ruling Liberal Party ends in October. And finally, Japan's failure to exert a leadership role on the world political scene may also undermine the Japanese currency, at least against the dollar. At the same time, however, the yen should continue to strengthen against most of the European currencies, supported by stronger economic growth in Japan than in most of Europe and Japan's widening trade surplus with the EC.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/22/91	\$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	249.678	- .134	+20.156
Loans to Depository Inst.	.295	- .026	- 1.068
Float	.199	- .087	- 1.067
Total Reserve Bank Credit	285.146	- 2.021	+13.762
Treasury Deposits with			
Federal Reserve Banks	5.583	+ .652	+ .309
Currency in Circulation	288.596	- .068	+26.170
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	247.348	+ 2.069	+18.075
Member Bank Reserves:	5/22/91		
Total Reserves Held	48.477	- .968	- 9.548
Excess (Deficiency)	1.135	+ .159	+ .114
Net Free Reserves	.895	+ .105	+ .499
		‡ % Change Since 3 Months Ago*	Year Ago
Monetary Aggregates †			
M1 (5/20/91)	852.8	+ 6.6	+ 5.4
M2 (5/20/91)	3,397.7	+ 4.9	+ 3.7
M3 (5/20/91)	4,175.2	+ 1.6	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 5/31/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.49%	5.67%	5.80%
* Federal Agencies	5.38	5.75	6.15
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.44	6.82	7.12
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.95	6.10	6.55
‡ Finance Company Paper—Prime		‡ Bankers' Acceptances	
5- 14 days	5.85%	Jun.	5.80%
15- 29 days	5.80	Jul.	5.80
30- 59 days	5.78	Aug.	5.80
60- 89 days	5.80	Sep.	5.80
90-179 days	5.84	Oct.	5.82
180-239 days	5.80	Nov.	5.85
240-270 days	6.00		
‡ Industrial Paper—Prime			
30- 89 days	5.85%	† Federal Funds Effective Rate	5.88%
90-120 days	5.87		
‡ Discount basis.	* Subject to availability.	† Estimated.	

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91	\$ 5,562r	\$ 5,527
Gross National Product (1982 Dollars)*	1st Q'91	\$ 4,126r	\$ 4,153
Percent Change, Annual Rate	1st Q'91	- 2.6r	- 1.6
Change in Consumer Prices*	Apr '91	2.4%	- 1.2%
Change in MH Cost of Living Index*	Apr '91	7.2%	2.4%
Change in Producer Prices*	Apr '91	2.4%	- 3.6%
Civilian Employment (Thousands of Persons) †	Apr '91	117,398	116,754
Unemployment as % of Civilian Labor Force †	Apr '91	6.6%	6.8%
Personal Income*	Apr '91 n	\$ 4,755	\$ 4,752r
Leading Indicators Composite Index (1967=100) †	Apr '91 n	142.2	141.4r
Industrial Production Index (1977=100) †	Apr '91	105.1	105.0
Net Change in Consumer Installment Credit †	Mar '91	- \$ 0.93	- \$ 0.20
U.S. Merchandise Trade Balance †	Mar '91	- \$ 4.05	- \$ 5.50
Plant and Equipment Expenditures*	2nd Q'91	\$ 547.9(a)	\$ 540.8(a)
Private Housing Starts (Thousands of Units)*	Apr '91	957	901
New Construction Expenditures*	Mar '91	\$ 391.4	\$ 397.4
Total Business Inventories †	Mar '91	\$ 821.6	\$ 828.2
Total Business Sales †	Mar '91	\$ 522.6	\$ 527.9

*Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure

r-Revised.

a-Anticipated.

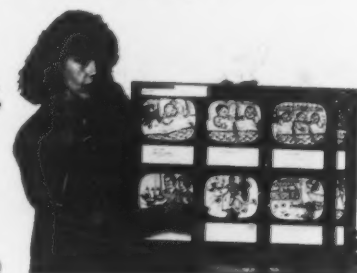
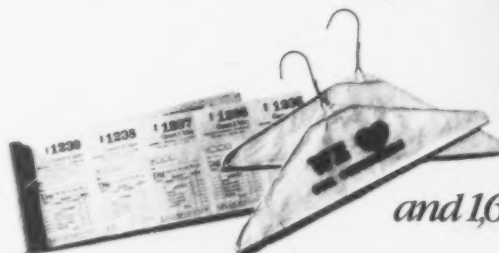


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